



# THE LENDER'S ADVANTAGE

*A Joint Publication of the Des Moines District Office and the Cedar Rapids Branch Office*

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## **INFORMATION**

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*All SBA programs and  
services are provided on  
a nondiscriminatory basis.*

## **SBA Launches Cluster Initiative for Regional Growth**

Dear Lender –

This past spring The Chicago Council on Global Affairs issued a paper authored by Mark Drabenstott entitled “Past Silos and Smokestacks: Transforming the Rural Economy in the Midwest”. Mr. Drabenstott concludes the rural Midwest needs a bold new development strategy to transform its economy built on four legs:

- Help rural communities and counties think regionally to compete globally.
- Focus public investments on transforming economic opportunities rooted in distinct economic strengths, not on smokestack chasing.
- Spur innovation and entrepreneurship, turning ideas and innovations into economic progress.
- Create a world-class entrepreneurial climate and innovation culture to grow a landscape of new companies, in the process recycling the region’s considerable wealth.

Iowans in parts of the state have already engaged in implementing parts of Mr. Drabenstott’s strategy. For example following the announcement of the closing of the Maytag plant in Newton by Whirlpool, the community and region sought assistance from a number of

resources to adjust to the impact. Out of the conversations and work came regional initiative now known as the Iowa Innovation Gateway. This grass roots community led regional initiative received the first regional innovation grant issued by US Department of Labor (DOL). Iowa has been the recipient in whole or part of 6 regional innovation grants, the most recent one by the Mid Iowa Growth Partnership who launched its initiative this month.

Earlier this month SBA Administrator Karen Mills announce the availability of funding for regional business cluster initiative projects. Cluster development strategies are a tool for fostering the economic development in a region. SBA is seeking proposals from entities that lead regional cluster projects that will provide services to small businesses involved in clusters such as training, counseling, mentoring, technology transfer assistance and other services relevant to small businesses.

For further information on the SBA cluster initiative and its request for proposals go to [www.sba.gov/clusters](http://www.sba.gov/clusters).

- Joseph M. Folsom, District Director

## **Important Information on Lender Service Providers for SBA Loans**

A “Lender Service Provider” is defined as an Agent who carries out lender functions in originating, disbursing, servicing, or liquidating a specific SBA business loan or loan portfolio for compensation from the lender.

If an Agent qualifies as a “Lender Service Provider” (LSP), a formal agreement between the Agent and the lender is required and **must** be approved by SBA. The Lender **must** submit the LSP agreement to the local SBA District Office for review and approval.

Additional guidance can be found in SOP 50-10 5(b), Subpart B, Paragraphs IX and X and 13 CFR 103.

If you have entered into an agreement with a LSP which has not been approved by SBA, please contact Linda Haus in the Des Moines District Office at 515-284-4561. Any questions regarding Lender Service Providers and LSP Agreements should also be directed to Linda.

## Updated Recovery Act Loan Documentation Requirements and Restrictions

The American Recovery and Reinvestment Act of 2009 (the “Recovery Act”) (P.L. 111-5) provided SBA with the ability to reduce certain loan fees and to increase certain loan guarantee percentages, subject to the requirements and restrictions outlined in the law. SBA has issued policy notices and Federal Register notices to advise its lending and resource partners of these additional requirements and restrictions and included them in SBA’s loan application systems.

SBA Information Notice 5000-1134 (effective date December 9, 2009), reminded SBA lenders and Certified Development Companies (CDCs) of these requirements and restrictions. However, early reviews by SBA’s Office of Inspector General and purchase reviews conducted by the National Guaranty Purchase Center have identified deficiencies related to Recovery loan documentation.

In order to properly document Recovery loan files, SBA reminds lenders and CDCs to make sure that their loan files contain specific documentation in the following areas:

For 7(a) loans with the increased guaranty, the borrower must certify in writing as follows:

**Borrower certification of hiring practices for 7(a) Loans with the Increased Guaranty:** Prior to first disbursement on a 7(a) loan with the increased guaranty, lenders must require that the Borrower and any Operating Company certify that they have not been determined by the Secretary of Homeland Security or the Attorney General to have engaged in a pattern or practice of hiring an alien, recruiting an alien or referring an alien for a fee for employment in the United States, knowing that the person is an unauthorized alien. This certification is in addition to the existing disclosure

requirement on SBA Form 912, Statement of Personal History. (See the notice published in the Federal Register on June 8, 2009 at 74 FR 27199, 27200.)

For all Recovery loans, the borrower must certify as follows:

### 1. **Allowable Uses of Recovery Act**

**Funds:** The Recovery Act established that no funds could be used by any State or local government, or any private entity, for any casino or other gambling establishment, aquarium, zoo, golf course or swimming pool. SBA loan guarantees funded with Recovery Act funds may not be made available to businesses primarily engaged in these activities or to businesses that intend to use guaranteed loans for the acquisition, construction, renovation or other purposes that include restricted uses. Documentation for acceptable uses of Recovery Act funds includes the following items:

#### a. **Certification that no funds will be used for a restricted use:**

Lenders and CDCs must certify on the applicable eligibility questionnaires and checklists that no loan proceeds will be used for a restricted use. All applicable eligibility questionnaires and checklists for the 7(a) and 504 programs have been modified to include an additional statement to this effect and must be retained in the lender’s or CDC’s loan file.

#### b. **Certification of uses for working capital funds:**

If an applicant receives a working capital loan, prior to first disbursement, the lender must require the Borrower and any Operating Company to certify that no funds from the working

capital loan will be used for restricted purposes. This certification must be retained in the lender’s or CDC’s loan file.

### c. **Credit memorandum and certification for projects with restricted uses:**

If an applicant will receive a loan to acquire, construct or renovate an existing facility that also has a golf course or swimming pool, for example, then:

- i. the lender or CDC must document in the credit memorandum that the use of proceeds does not include financing the restricted use and document the other resources that cover the financing of this component; and
- ii. prior to first disbursement the lender or CDC must require the Borrower and any Operating Company to certify that alternate funding (which may come from the borrower’s equity) has been obtained to pay the costs allocable to the acquisition, construction or renovation of the golf course or swimming pool.

The credit memorandum and the certification must be retained in the lender’s or CDC’s loan file.

SBA urges all participants to ensure that their documentation of Recovery loans is complete and accurate. The lack of documentation slows the purchase process and can lead to a possible repair if the lender or CDC is unable to produce the required certifications.

If you have questions please contact our Branch Office in Cedar Rapids or our District Office in Des Moines.

## What the SBA Processing Center Looks for in a Lender's Credit Memo

When an SBA loan officer reviews a credit application, they follow a credit memo format like the one below.

*History:* The loan officer describes the business name, its owners, the NAICS code, its size standard, the type of legal organization, and a brief history of the business.

*Eligibility:* This section describes the loan amount, and itemizes the use of proceeds. Personal resources are identified, as are affiliates. Change of ownership is presented here. If there is an Eligible Passive Company, it is shown. Any debt repayment is described in detail. Finally, the results of the Form 912 are cited.

*Balance Sheet:* Major adjustments for the Pro Forma are described, as are any unusual items. Tangible D/W appears

here and a decision whether equity investment is adequate.

*Working Capital:* The description of working capital is given, and a decision whether this level of working capital is strong enough.

*Repayment Ability:* The loan officer lists the firm's new fixed obligations. SBA cash flow is calculated here: net profit, plus depreciation expense, plus interest expense. Comparing this figure to proposed debt service, the loan officer finds the cash flow coverage ratio. Here a determination of repayment ability is rendered.

*Collateral:* SBA discounts the tangible collateral pledged. Inventory and receivables are discounted to 20%, M&E and vehicles to 50%, commercial real estate to 75%, and residential real

estate, if any, to 80%. The sum of these discounted values is compared to the loan amount to determine if we're fully collateralized. If not, we may ask for more collateral.

*Management:* The loan officer examines management education, experience, and capability.

*Miscellaneous:* Here are the credit bureau scores, any lease terms involved, and a screening for government debt defaults.

*Summary:* The loan officer lists the favorable and the unfavorable factors, and recommends approval or decline.

If your own credit memo follows the criteria discussed above, it will be helpful to the SBA loan officer processing your application.

## SBA Lender Activity Report for JUNE

LENDER NAME	LOCATION	#	AMOUNT
FIRST CENTRAL STATE BANK	DE WITT	3	\$524,000
IOWA BUSINESS GROWTH CO.	JOHNSTON	3	\$344,000
HILLS BANK & TRUST CO.	HILLS	2	\$140,000
BLACK HAWK ECON. DEV.	WATERLOO	2	\$97,000
SUPERIOR FINANCIAL GROUP	CALIFORNIA	2	\$30,000
CENTRAL BANK	STORM LAKE	1	\$1,950,000
GATEWAY STATE BANK	CLINTON	1	\$748,800
FARMERS SAVINGS BANK	WEVER	1	\$307,000
CEDAR RAPIDS BK & TR CO	CEDAR RAPIDS	1	\$300,000
FIRST NATIONAL BANK	WAVERLY	1	\$200,000
FIRST NATL BK IN FAIRFIELD	FAIRFIELD	1	\$195,800
VALLEY BANK	MOLINE	1	\$150,000
GREAT WESTERN BANK	IOWA	1	\$149,900
FIRST AMERICAN BANK	FORT DODGE	1	\$149,000

LENDER NAME	LOCATION	#	AMOUNT
CENTRIS FCU	NEBRASKA	1	\$137,000
SMALL BUS. GROWTH CORP	ILLINOIS	1	\$105,000
HAMPTON STATE BANK	HAMPTON	1	\$80,200
FREEDOM FINANCIAL BANK	WDM	1	\$78,600
CLEAR LAKE BK & TR CO	CLEAR LAKE	1	\$65,000
STATE CENTRAL BANK	KEOKUK	1	\$50,000
IOWA STATE BANK	WAPELLO	1	\$40,000
AMERICAN TRUST & SVGS BANK	DUBUQUE	1	\$35,000
DUBUQUE BANK AND TRUST CO	DUBUQUE	1	\$35,000
FIDELITY BANK & TRUST	DUBUQUE	1	\$35,000
FIRST STATE BANK OF IDA GROVE	IDA GROVE	1	\$35,000
IOWA-NEBRASKA STATE BANK	NEBRASKA	1	\$35,000
THE FIRST NATIONAL BANK	PRIMGHAR	1	\$35,000
GUARANTY BANK AND TRUST CO.	CEDAR RAPIDS	1	\$25,000

*The following lenders were participant lenders in the SBA's 504 Loan Program in Iowa during the month of June*

LENDER NAME	LOCATION	#	AMOUNT
FIRST CENTRAL STATE BANK	LE CLAIRE	2	\$426,500
NORTHWEST BANK & TRUST CO.	DAVENPORT	1	\$144,058
LIBERTY BANK FSB	CEDAR FALLS	1	\$100,000

LENDER NAME	LOCATION	#	AMOUNT
CITIZENS STATE BANK	MONTICELLO	1	\$67,500
FIDELITY BANK & TRUST	OELWEIN	1	\$66,000